United Nations A/64/652

General Assembly

Distr.: General
3 February 2010

Original: English

Sixty-fourth session
Agenda item 146
Administrative and budgetary aspects of the financing of the United Nations peacekeeping operations

Budget of the Office of Internal Oversight Services under the support account for peacekeeping operations for the period from 1 July 2010 to 30 June 2011

Report of the Independent Audit Advisory Committee

Summary

The present report contains the comments, advice and recommendations of the Independent Audit Advisory Committee on the budget of the Office of Internal Oversight Services under the support account for peacekeeping operations for the period from 1 July 2010 to 30 June 2011.

10-23010 (E) 170210

Please recycle

I. Introduction

1. The Independent Audit Advisory Committee presents herein its comments, advice and recommendations to the General Assembly, through the Advisory Committee on Administrative and Budgetary Questions, on the budget of the Office of Internal Oversight Services (OIOS) under the support account for peacekeeping operations for the period from 1 July 2010 to 30 June 2011. The report is submitted in accordance with paragraphs 2 (c) and (d) of the Committee's terms of reference (General Assembly resolution 61/275, annex).

2. The Committee has a responsibility to examine the workplan of OIOS, taking into account the workplans of the other oversight bodies, with the Under-Secretary-General for Internal Oversight Services and to advise the Assembly thereon, to review the budget proposal of the Office, taking into account its workplan, and to make recommendations to the Assembly through the Advisory Committee. The Committee undertook its review of the OIOS work-planning process and the budget for OIOS under the support account for peacekeeping operations for the period 1 July 2010 to 30 June 2011 during its eighth session, which was held from 2 to 4 December 2009.

3. The Committee appreciates the efforts of the Office of Programme Planning, Budget and Accounts and OIOS in providing the Committee with the relevant documents for consideration. OIOS also provided supplementary information in response to various questions from the Committee.

II. Background

4. The proposed OIOS budget under the support account for peacekeeping operations for the period from 1 July 2010 to 30 June 2011 is estimated at $28,374,900 (gross), which represents an increase of $3,994,000 (gross), or 16 per cent, over the prior year's approved budget of $24,380,900 (gross). The increase in the budget is attributable primarily to the request by OIOS for the establishment of 22 new posts, 18 of which are requested for the Internal Audit Division, 3 for the Inspection and Evaluation Division and 1 for the Investigations Division.

5. The proposed budget for non-post costs increased by $788,000, or 13 per cent, over the approved 2009/10 budget, from $6,205,100 to $6,993,100. Increases in non-post costs are proposed for the Internal Audit Division and the Inspection and Evaluation Division and are attributable to increases in the use of consultants, training-related travel, facilities and infrastructure costs and communications costs. The full effect of the increases is offset in part by decreases in non-post costs for the Investigations Division and the Executive Office.

6. The proposed financial resources for OIOS for 2010/11 as compared with 2009/10 are provided in table 1.

Table 1
Financial resources

	Approved 2009/10	*Proposed 2010/11*	*Variance* (United States dollars)	*Variance* (Percentage)
Internal Audit Division	13 666.4	17 032.1	3 365.7	25
Inspection and Evaluation Division	728.7	1 332.6	603.9	83
Investigations Division	9 315.1	9 456.1	141.0	2
Executive Office	670.7	554.1	(116.6)	-17
Total	**24 380.9**	**28 374.9**	**3 994.0**	**16**

Note: Budget figures provided by the Office of Programme Planning, Budget and Accounts, Peacekeeping Financing Division.

The Committee recognizes that the consideration of the OIOS budget proposals with regard to the specific grade level of OIOS posts and requests for non-post resources is more appropriately within the remit of the Advisory Committee on Administrative and Budgetary Questions. The Independent Audit Advisory Committee's review, comments and advice will therefore focus on the scope of its own terms of reference with respect to the work-planning and budgeting process of OIOS. In accordance with its terms of reference, the Committee will submit the present report to the General Assembly through the Advisory Committee on Administrative and Budgetary Questions. Arrangements will be made to interact with the Advisory Committee during the Independent Audit Advisory Committee's ninth session (17-19 February 2010) to discuss the contents of the report.

III. Comments of the Independent Audit Advisory Committee

A. Internal Audit Division

7. In the reports issued since its inception, the Committee has made a number of recommendations relating to the Internal Audit Division's work-planning and budgeting process. The recommendations have included the following:

(a) OIOS risk assessments for the purposes of work planning and budgeting should take into consideration the controls that management has put in place to mitigate risks in order not to overestimate high-risk areas;

(b) The work-planning process should include consultation with management before and after the preparation of the OIOS workplan;

(c) OIOS should coordinate its workplans with the Board of Auditors and the Joint Inspection Unit before finalizing them to avoid duplication and to minimize the impact on management and staff in the Organization;

(d) OIOS should move from preparing its budget on an incremental basis to using its risk assessment framework to determine the level of resources that will be required to address the risks identified in the Organization.

8. The Committee has also recommended that OIOS develop suitable metrics that will enable it to report on the value of the services it delivers to the Organization. OIOS has since prepared preliminary performance indicators for discussion with the Committee. Furthermore, the Committee has always challenged OIOS to lead by example, especially with regard to economy of resources. This is particularly appropriate given the nature of OIOS and that in view of the current global economic situation there may be constraints on the resources available for the Organization's substantive programmes.

9. The Internal Audit Division is the largest of the three divisions of OIOS and represents close to 60 per cent of the OIOS budget under the support account. A substantial portion of the Committee's deliberations and discussions was therefore devoted to the Division's workplan and budget.

10. OIOS has demonstrated progress in the implementation of the recommendations made by the Committee. The most significant change in the audit work-planning process for 2010/11 appears to be the Division's consultations with management at the beginning and end of the planning process, as recommended by the Committee. OIOS has also implemented the Committee's recommendation to hold an annual work-planning meeting with the Board of Auditors and the Joint Inspection Unit in addition to the regular coordination and cooperation efforts.

11. Also in accordance with the Committee's recommendation, OIOS made the transition to using a risk-based workplan in preparing of its budget. Previous budgets were prepared on an incremental basis or were based on a ratio of staff to the amount of the mission's budget, which had no direct correlation to the risks that needed to be addressed by the internal audit function.

12. In preparing the present budget, the Division initiated its work-planning process by seeking written input from management on areas of concern or high risk as suggestions for audit coverage. Responses were received to approximately 80 per cent of the letters sent to managers. OIOS reported to the Committee that in selecting assignments for 2010/11 and beyond, the Division gave priority to:

(a) Areas with inherently high risk that were not sufficiently covered in the past three years or those for which no reliable assessment of residual risk was available;

(b) Client concerns relating to areas where risk exposure was considered to be significant.

13. OIOS discussed the draft audit workplan with each programme manager and then provided the programme managers with the final version of the workplan. In total, the Division plans to undertake 101 audits assignments in the budget period. OIOS has indicated that it will continue to consult with management during the period and, if required, will revise the workplan on the basis of emerging risks and priorities.

14. The OIOS audit workplan lists the planned assignments in order of priority and includes an estimate of the days that will be required to complete each audit. OIOS also calculates the number of days available per year by category of staff (see table 2).

Table 2
Number of staff-days available annually (out of 260 workdays)

Category	*Regular duty stations*	*Peacekeeping missions*
Section Chiefs/Chief Resident Auditors with more than five staff	—	—
Section Chiefs/Chief Resident Auditors with five or fewer staff	80	80
Other Professionals (P-3/P-4)	160	120
Audit Assistants	80	60

15. In summary, at each peacekeeping mission, Auditors at the P-3 and P-4 levels are allocated to audits on the basis of 120 days per year; Audit Assistants are allocated at 60 days per year; Chief Resident Auditors at the P-5 level with audit teams comprising fewer than five staff are allocated at 80 days per year, and Chief Resident Auditors at the P-5 level in missions where the audit team comprises more than five staff do not charge time to audit activities. Using the current OIOS staffing table for the Internal Audit Division and the days available per staff member, OIOS calculates the total days available in each location.

16. The variance between the estimate by OIOS of the number of days required to undertake the planned audits and the total days available is presented by OIOS as the gap in capacity. On that basis, the Division proposes a 20 per cent increase in the number of posts, from 90 to 108, in its budget under the support account for 2010/11. The additional posts requested by OIOS in the current budget are listed in table 3.

Table 3
Additional posts requested by the Office of Internal Oversight Services in the current budget

		Grade				
Location	*Total*	*P-5*	*P-4*	*P-3*	*Field Service*	*National staff*
MINURCAT	3	—	2	1	—	—
UNSOA	6	1	2	2	1	—
MINUSTAH (redeployed from UNMIK)	1	—	—	—	—	—
UNMIK	-1	—	—	—	—	—
UNMIS	1	—	—	—	—	1
UNIFIL	1	—	—	—	—	1
Headquarters Peacekeeping Audit Section	2	—	1	1	—	—
Information and Communications Technology Audit Section	1	—	1	—	—	—
Resident Auditors' Coordination Section	2	—	2	—	—	—

Location	Total	Grade				
		P-5	*P-4*	*P-3*	*Field Service*	*National staff*
Special Assignments Section	1	—	1	—	—	—
Professional Practices Section	1	—	1	—	—	—
Total	**18**	**1**	**10**	**4**	**1**	**2**

Abbreviations: MINURCAT, United Nations Mission in the Central African Republic and Chad; UNSOA, United Nations Support Office for the African Union Mission in Somalia; MINUSTAH, United Nations Stabilization Mission in Haiti; UNMIK, United Nations Interim Administration Mission in Kosovo; UNMIS, United Nations Mission in the Sudan; UNIFIL, United Nations Interim Force in Lebanon.

17. The Committee sought clarification from OIOS on several aspects of the work-planning process as well as the planning assumptions used in determining the increase in the number of posts submitted in the budget. On the issue of the risk-based approach to work planning, it is the unanimous view of the Committee, based on the members' expertise, practice in other organizations and prevailing best practices, that while inherent risk is an important factor in identifying high-risk areas, residual risk is more appropriate for the prioritization of audit activities and ultimately the determination of the level of resources required. **The Committee reiterates its comment (made in A/64/86, para. 11) that relying on inherent risk only provides an overly conservative estimate of the level of risk in an organization.** Under certain circumstances, however, it may be appropriate to rely on inherent risk if an audit is being undertaken in a particular area for the first time and where there is no information available regarding the control environment or there has been a significant or material change that requires the auditor to fundamentally reassess the controls.

18. The Committee acknowledges the efforts of OIOS to comply with the Institute of Internal Auditors' practice advisory on using the risk management process in internal audit planning and to modify its risk assessment framework to assess residual risk. Upon inspection of the audit workplan the Committee noted, nevertheless, that for the majority of audit assignments listed, the inherent risk and residual risk are the same. OIOS acknowledged that a number of audits still need to be undertaken before any adjustment can be made to the inherent risk and that a systematic assessment of residual risk can only be based on detailed audits conducted over a period of time. The Committee is concerned, however, at the implication by OIOS that internal controls in the Organization are considered non-existent pending an assessment through an OIOS audit. In the Committee's view and based on practices in other comparable organizations, assessments of residual risk can be made efficiently and effectively through control risk assessment techniques involving key staff from the area under assessment or through in-depth discussions with managers to establish their assessment of internal controls. The implementation and maintenance of internal controls is, after all, a management responsibility.

19. The other area for which the Committee sought clarification relates to the planning assumptions, estimates and calculation of available days per staff member per year. The Committee views the availability of 120 days per auditor (P-3/P-4

level) and 60 days per audit assistant for staff based in peacekeeping missions as far too low a level of acceptable productivity. The provisions for staff leave entitlements (annual leave, sick leave and United Nations holidays), totalling 44 days per year, and rest and recuperation breaks, totalling 40 days per year, owing to the hardship conditions that staff members operate under in the missions, are beyond the direct control of OIOS. The Committee, however, questioned the allocation of 20 days annually per auditor and per audit assistant for following up recommendations and updating the annual risk register and an additional 20 days for non-audit activities. OIOS maintains that its planning assumptions and estimates are correct.

20. In the Committee's view, the allocation of days to non-audit activities for each auditor and audit assistant appears excessive and has a significant impact on the capacity available to undertake audit assignments. In addition, the Committee questions the accuracy of the estimate of available days, as it does not appear to include any allocation of audit time to Chief Resident Auditors in missions with audit teams of more than five staff, when indeed the number of days budgeted for each audit includes the review and finalization of the report by the Chief Resident Auditor. OIOS considers the amount of time chargeable to the Chief Resident Auditors to not be significant enough for the allocation of days.

21. To demonstrate the effect that an increase in the number of available days can have on closing the gap in capacity, the Committee provides an illustrative example (see table 4). Reducing the non-auditing activities for auditors at the P-3 and P-4 levels from 40 days to 20 days in effect increases the days available for this level of staff from 120 days to 140 days per year. To illustrate the point further, the Committee used the request for additional posts in the United Nations Mission in the Central African Republic and Chad (MINURCAT) as an example. The result shows that where OIOS calculates a 280-day shortfall in available days for MINURCAT and equates it to a requirement for three additional posts (1 P-4 and 2 P-3), the table demonstrates that by increasing the time available by 20 days, the equivalent number of additional posts requested for MINURCAT can be reduced from three to two.

Table 4
Example of the effect of reducing the number of non-audit days for auditors at the P-3 and P-4 levels at MINURCAT

	Authorized staff	*OIOS calculation*	*Committee's illustrative example*
Days budgeted	—	660	660
Staff-days available	1 P-5	80	80
	1 P-4	**120**	**140**
	1 P-3	**120**	**140**
	1 Field Service	60	60
Total days available	—	380	420

	Authorized staff	*OIOS calculation*	*Committee's illustrative example*
Shortfall available days	—	280	240
Number of P-3/P-4 auditor posts required to meet the shortfall	—	OIOS requested 3 posts to meet the 280-day shortfall based on 120 days of availability	The Committee calculates approximately 2 posts are required to meet the 240-day shortfall based on 140 days available for P-3/P-4 auditors

22. The Committee noted the request by OIOS for two specialist audit posts, an information and communications technology auditor and a forensic audit specialist. The Committee concurred that information and communications technology risks and fraud risks needed to be addressed in the current OIOS audit workplan and that the skills required for those posts were unique and specialist in nature.

23. Turning to the request by the Internal Audit Division for two additional posts for the Resident Auditors' Coordination Section based in New York, the justification for the posts is based on an estimated workload of 1,100 staff-days, which OIOS equates to seven posts. The current authorized staff complement in the Section is five posts, two posts fewer than the requirement calculated by OIOS. The 1,100-day workload estimate includes 650 days for reviews of audit programmes and draft and final audit reports, in addition to audit review activities carried out by the Chief Resident Auditors in the missions. In this regard, the Committee believes that OIOS should re-evaluate its audit management process with a view to reducing the estimate for reviews of audit programmes and draft and final audit reports. The efficiency and effectiveness of the review function currently undertaken by both the Chief Resident Auditors in the missions and the headquarters-based Resident Auditor Coordination Section could be an area for improvement.

24. The estimation of days budgeted per audit and the number of days available per staff member are key components of the calculation by OIOS of the additional posts required to undertake its audit plan. The example for MINURCAT in table 4 demonstrating the effect of increasing the number of days available, in combination with the absence of an allocation of days to certain Chief Resident Auditors and possible efficiency gains from a re-evaluation of audit management processes, underscores the Committee's concern regarding the accuracy of the calculation of additional posts required.

25. **The Committee, therefore, recommends that the Internal Audit Division undertake a thorough review of its planning assumptions and estimates and recalculate its requirements, addressing the issues identified by the Committee, before making proposals for additional posts in existing locations. In this regard, the Committee also draws attention to General Assembly resolution 60/268, reiterated in paragraph 32 of resolution 63/287, requesting OIOS to refine the methodology for allocating resident auditors, taking into account the risks and complexity of the operation of individual peacekeeping operations, and to report thereon to the Assembly.**

26. **The Committee advises that OIOS Internal Audit Division adopt and implement a more robust plan to prepare an audit workplan that is based on residual risk. In addition, the Committee reiterates its recommendation that**

OIOS implement results-based performance measures to demonstrate the value of services delivered to the Organization.

27. **With regard to the Internal Audit Division's request for 18 posts in the current budget proposal, the Committee sees merit in recommending:**

(a) **The redeployment of one post from the United Nations Interim Administration Mission in Kosovo to MINUSTAH;**

(b) **The transfer of four previously authorized posts from the United Nations Support Office for the African Union Mission in Somalia budget to the OIOS budget;**

(c) **The addition of two new posts for specialist audit positions — an information and communications technology audit specialist and a forensic audit specialist.**

28. **In view of the issues related to the planning assumptions, estimates and calculations identified in paragraphs 20 to 25 above, the Committee does not at this time support the request by OIOS for the remaining 12 additional posts requested for the Internal Audit Division in the current budget.**

B. Inspection and Evaluation Division

29. The Inspection and Evaluation Division of OIOS presented its workplan for 2010/11 relating to peacekeeping operations to the Committee. The Division plans to focus on both programme evaluations of peacekeeping missions and thematic evaluations covering cross-cutting aspects of peacekeeping work, assessing the relevance, efficiency and effectiveness (including impact) of peacekeeping operations.

30. The Committee noted that the authorized staffing of the Division comprised two posts to conduct evaluations of peacekeeping programmes (16 peacekeeping missions, the Department of Peacekeeping Operations and the Department of Field Support). The Division estimates that it would require three additional posts to accomplish its plan to deliver two programme evaluations, one thematic evaluation and one inspection in the 2010/11 budget period.

31. The Committee reiterates its advice provided in respect of the prior budget of the Inspection and Evaluation Division that the in-depth nature of evaluations conducted by OIOS adds value to the Organization's peacekeeping programme. According to OIOS, the Division would be able to undertake only two programme evaluations in 2010/11 if the authorized staffing level remained unchanged.

32. **Based on the workplan proposed by the Division, the Committee recommends the allocation of additional staff and consultancy resources to the inspection and evaluation function to enable it to deliver the inspections and evaluations planned for the 2010/11 budget period.**

C. Investigations Division

33. The Committee notes the decision of the General Assembly in its resolution 63/287 to designate as a pilot project centres of investigation in Nairobi, Vienna and

New York from 1 July 2009 to 30 June 2012 and for the Secretary-General and the Board of Auditors to report on various aspects of the implementation of the project. Where relevant, the Committee will provide its comments and advice to the Assembly following the issuance of the pending reports.

34. With regard to the current operations of the Investigations Division, the Committee noted that at as 31 October 2009 the Division's vacancy rate for posts funded from the support account for peacekeeping operations was 44 per cent. OIOS provided supplementary information in this respect indicating that recruitment was in progress for 23 of the 25 vacant posts. OIOS also reported that the allocation of the support account posts did not currently reflect the distribution of the Division's caseload. The data presented by OIOS indicated that New York had 53 per cent of the Division's cases and 20 per cent of the total resource allotment, Nairobi had 34 per cent of the cases and 40 per cent of the resources and Vienna had 13 per cent of the cases and 40 per cent of the resource allocation. The Committee is confident that the review of this area by the Board of Auditors requested by the Advisory Committee on Administrative and Budgetary Questions will provide valuable information in this regard.

35. **In view of paragraphs 37 and 38 of General Assembly resolution 63/287 regarding the restructuring of the Investigations Division, the pending reports requested by the Assembly in paragraphs 39 to 41 of the same resolution and the status of vacancies in the Division, the Committee does not at this time support the request to establish a new post in the Investigations Division in the current budget.**

IV. Conclusion

36. The members of the Independent Audit Advisory Committee respectfully present the present report containing its comments and recommendations for consideration by the Advisory Committee on Administrative and Budgetary Questions and the General Assembly.

(*Signed*) David M. **Walker**
Chair, Independent Audit Advisory Committee

(*Signed*) Vijayendra N. **Kaul**
Vice-Chair, Independent Audit Advisory Committee

(*Signed*) Vadim V. **Dubinkin**
Member, Independent Audit Advisory Committee

(*Signed*) John F. S. **Muwanga**
Member, Independent Audit Advisory Committee

(*Signed*) Adrian P. **Strachan**
Member, Independent Audit Advisory Committee